

Message Text

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C O N F I D E N T I A L MILAN 0828

E.O. 11652: GDS

TAGS: EINV, EIND, IT

SUBJECT: PENNEY'S THROWS IN TOWEL

1. J.C. PENNEY HAS DECIDED TO SELL ITS FIVE ITALIAN RETAIL DEPARTMENT STORES AND LEAVING ONLY CONSULTING OFFICE BEHIND. COMPANY ANNOUNCED APRIL 30 THAT MILAN BASED RETAIL CHAIN LA RINASCENTE, WILL ACQUIRE J.C. PENNEY HOLDINGS IN RETURN FOR ABOUT FIVE PERCENT OF ITS STOCK VALUED AT ABOUT 1.8 BILLION LIRE (ABOUT \$2 MILLION DOLLARS). PENNEY'S WILL CONTINUE HERE PROVIDING ONLY TECHNICAL AND MARKETING ASSISTANCE TO RINASCENTE.

2. THE HEAD OF J.C. PENNEY-ITALY TOLD US THAT COMPANY'S DECISION RESULTED FROM ITS INABILITY TO OPEN NEW OUTLETS. PENNEY'S, WHOSE MARKET STRATEGY WAS TO PURCHASE ITS WARES IN HEAVY VOLUME FOR DISTRIBUTION FROM MULTIPLE OUTLETS, HAD CREATED CENTRAL STRUCTURE CAPABLE OF SERVICING TWENTY OR MORE STORES AND PARENT COMPANY HAD CONTINUALLY SET ASIDE FUNDS FOR INVESTMENT IN NEW STORE CONSTRUCTION. SUBSIDIARY HERE HAD BEEN UNSUCCESSFUL HOWEVER, IN OBTAINING LICENSES TO BUILD AND OPEN STORES. IT HAD CONSTRUCTED ONE STORE JUST OUTSIDE MILAN IN MONZA, FOR EXAMPLE, AND THEN HAD BEEN UNABLE TO GET PERMISSION FRMM LOCAL AUTHORITIES TO OPEN. MAYOR HAD TOLD PENNEY'S THAT ITS PRICES WERE TOO LOW TO BE IN INTEREST OF CONFIDENTIAL

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CONSUMER." THE NEXT DAY ANOTHER CITY OFFICIAL TOLD NEWS-PAPERS THAT PENNEY'S WAS "NOT GOOD" FOR LOCAL RETAILERS, EITHER. STORE HAD FINALLY OPENED AFTER MONTHS OF DELAY BUT WITHOUT PENNEY'S OR ANY OTHER NAME.

3. PENNEY'S EXECUTIVE ADDED THAT ITS STORES HAVE BEEN VERY SUCCESSFUL HERE WITH SALES IN REAL TERMS INCREASING EACH YEAR.

BUT SMALL NUMBER OF OUTLETS HAVE NOT BEEN ABLE TO CARRY EXPENSIVE INFRA-STRUCTURE AND COMPANY HAS HAD HEAVY LOSSES. (RINASCENTE SOURCE TOLD US THAT LAST YEAR PENNEY'S LOSSES WERE LESS THAN IN EARLIER YEARS BUT STILL AT TWO MILLION DOLLAR LEVEL.) IN LIGHT OF THESE LOSSES, DEAL WITH RINASCENTE APPEARED ATTRACTIVE. EXECUTIVE LAMENTED THAT COMPANY HAS BEEN WILLING TO INVEST IN ITALY BUT COULD NOT GET THROUGH LOCAL BUREAUCRACY. ANOTHER PRIVATE SOURCE TOLD US THAT PENNEY'S FAILURE DUE TO REFUSAL TO "PAY OFF PETTY GOVERNMENT OFFICIALS" TO OBTAIN LICENSES.

4. DEAL WAS ATTRACTIVE FOR RINASCENTE, TOO. FOR ABOUT TWO MILLION DOLLARS (IN STOCK) IT IS PICKING UP FIVE LARGE AND MODERN DEPARTMENT STORES. RINASCENTE, WHICH OPERATES ABOUT 200 RETAIL DEPARTMENT STORES AND SUPERMARKETS UNDER LA RINASCENTE AND UPIM NAMES, EXPECTS PENNEY'S OUTLETS WILL HELP IT MOVE OUT OF LOSS POSITION IT HAS BEEN IN FOR PAST FEW YEARS. ACQUISITION OF PENNEY'S WILL BE RATIFIED IN SPECIAL SHARE-HOLDERS' MEETING IN WHICH SHAREHOLDERS WILL APPROVE NEW STOCK ISSUE EQUAL TO FIVE PERCENT OF EXISTING STOCK. LARGE SHAREHOLDERS FIAT AND MEDIOBANCA TOGETHER CONTROL ABOUT 24 PERCENT OF SHARES.

5. PENNEY'S PRESENCE IN ITALY WILL THUS BE GREATLY DIMINISHED, AND ITS LONG RUN GOALS HERE ARE STILL UNCLEAR. ASKED WHETHER PENNEY'S WOULD GRADUALLY ATTEMPT TO ACQUIRE CONTROL OF RINASCENTE, AS IT HAS DONE IN SIMILAR SITUATIONS ELSEWHERE IN EUROPE, PENNEY'S EXECUTIVE RESPONDED THAT IT IS PREMATURE TO SAY.
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